

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
STATEMENT OF INVESTMENT POLICY**

**FOR  
ECONOMICALLY TARGETED INVESTMENT PROGRAM**

**February 17, 2009**

*This policy is effective immediately upon adoption, and supersedes all previous Economically Targeted Investment Program policies.*

**I. PURPOSE**

The CalPERS Total Fund Statement of Investment Policy, adopted by the CalPERS Investment Committee ("Committee"), sets forth CalPERS overarching investment purposes and objectives with respect to all its investment programs.

This document sets forth the investment policy ("Policy") for the [Economically Targeted Investment](#) ("ETI") Program ("Program"). The design of this Policy ensures that investors, managers, consultants, and other participants selected by the California Public Employees' Retirement System ("CalPERS") take prudent and careful action while managing the Program. Additionally, use of this Policy assures sufficient flexibility in managing investment risks and returns associated with this Program.

**II. STRATEGIC OBJECTIVES**

The Program shall be managed to accomplish the following:

- A. Achieve competitive risk-adjusted rates of return..
- B. Assist in the improvement of national and regional economies. CalPERS' choices in ETI's will provide collateral benefits to targeted geographic areas, groups of people, or sectors of the economy while providing CalPERS with prudent investment options. Furthermore, prudent investment in ETI's creates jobs and housing and improves the general infrastructure.

**III. RESPONSIBILITIES**

- A. CalPERS' Investment Staff ("Staff") is responsible for the following:
  - 1. All aspects of portfolio management including monitoring, analyzing, and evaluating performance relative to the appropriate benchmark.
  - 2. Reporting to the Committee annually and more, if needed, about the performance of the Program.

3. Monitoring the implementation of, and compliance with, the Policy. Staff shall report concerns, problems, material changes, and all violations of the Policy at the next Committee meeting, or sooner if deemed necessary. These reports shall include explanations of the violations and appropriate recommendations for corrective action.
- B. The General Pension Consultant ("General Pension Consultant") is responsible for:

Monitoring, evaluating, and reporting annually, to the Committee, on the performance of the Program as well as identification of assets committed, invested, and disposed of under this Policy.

#### IV. PERFORMANCE OBJECTIVE AND BENCHMARK

Specific performance objectives and benchmarks for each ETI and California Emerging Market Investment are outlined in the applicable asset class policies.

#### V. INVESTMENT APPROACHES AND PARAMETERS

- A. The Board's constitutional duties, as defined and clarified by amendments to California Constitution Article XVI, Section 17, take precedence over any other considerations. Any other considerations will be entertained only when not in conflict with any of these duties. It is recognized that investments made for the sole benefit of CalPERS' beneficiaries may also generate collateral benefits.
- B. CalPERS will consider only ETIs which, when judged solely on the basis of economic value, would be financially comparable to alternatively available investments. Comparability will be judged on a risk-adjusted basis with CalPERS being willing to accept no less in return and incur no additional risk or cost.
- C. The collateral benefits shall not be considered part of the return to CalPERS nor shall any improvement to the national, regional, or local economies or any improvement in California Emerging Markets, as specified in Attachment A, be considered part of risk reduction. The decision to choose the ETI in consideration of its broader benefits may occur only after the investment is deemed acceptable to CalPERS exclusively on its economic investment merits.
- D. Any benefit an ETI may confer on other interests is not the responsibility or within the ability or control of CalPERS, but only of those who manage or are otherwise responsible for the enterprise. This will be made expressly clear to third parties and CalPERS' beneficiaries.

- E. For allocation purposes, ETIs will be included with similar investments that are free of economically targeted elements, and the combined assets will be subject to the Board's asset allocation guidelines, ranges, and targets. Investments shall not be made so as to alter the overall risk/return profile of CalPERS' investments, which derives from CalPERS' liability profile and funding level.
- F. The target allocation to ETIs shall be 2% of Fund assets. At such time as the 2% goal is achieved, the Board shall evaluate whether to increase the goal. The existence of this Policy shall not be construed as a mandate to invest in ETI's, but rather should be viewed as an additional set of suggested parameters within which to consider such investments.
- G. ETIs shall not materially alter CalPERS' approved asset allocation policies. Particular attention should be paid to the State's representation in CalPERS' portfolio. CalPERS exposure to the State's economy, inclusive of investment in ETIs, at a minimum, shall generally be in line with the State's representation in the eligible investment universe and consistent with the Board's fiduciary obligations.
- H. ETIs shall be consistent with the Board's fiduciary obligations and approved investment policies and guidelines. ETI investments must at all times conform to all the laws, requirements, policies and procedures governing CalPERS.
- I. ETIs shall receive prudent level of due diligence.

ETI due diligence shall be consistent with the type of investment product and portfolio classification and shall at a minimum address:

1. Legal sufficiency;
2. Identification of any potential conflicts of interest; and
3. Investment Sufficiency – The standard for investment sufficiency shall be consistent with existing internal policies and practices of due diligence analysis for each specific asset type.

As part of California Emerging Market Investment due diligence, staff shall consider the current economic condition of the State and the prudence of committing assets to underserved areas given that economic condition.

- J. CalPERS may invest in ETIs so long as the Board has determined and can demonstrate that the investments properly discharge the Board's duties under the provisions of California Constitution, Article XVI, Section 17 (i.e.,

the duties of loyalty, care, skill, prudence, diligence and diversification) and are consistent with the California Government Code statutes applicable to CalPERS (California Government Code sections 20000 et seq.). Consequently, all other economic objectives must necessarily be secondary to, and not impair, those duties imposed by the California Constitution and CalPERS' statutes.

- K. Pursuant to the above criteria, consideration shall be given in order of preference to those investments which may benefit:
1. Current and retired members of CalPERS;
  2. Residents of the State;
  3. Enterprises that operate for the benefit, the support, and the employment of residents of the State; and
  4. Enterprises that address the economic and social need of the United States residents with unique major representation in the State.

## **VI. CALCULATIONS AND COMPUTATIONS**

- A. Each ETI shall be separately evaluated based on its unique structure and potential in accordance with CalPERS' investment criteria and this Policy. This will ensure that all CalPERS' responsibilities and investment requirements are being addressed in the evaluation and investment process.
- B. ETIs, whether in a stand-alone portfolio or incorporated with like investments which have no economically-targeted orientation, shall be priced at market prices and shall be subject to the applicable performance measurements.

## **VII. GLOSSARY OF TERMS**

Key words used in the policy are defined in CalPERS' Master Glossary of Terms.

Approved by the Policy Subcommittee: November 30, 1999  
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Approved by the Investment Committee: June 17, 2002  
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## **California Emerging Markets**

California Emerging Market would include urban and rural areas undergoing or in need of revitalization where there are assets (e.g. an available labor pool, underutilized infrastructure) conducive to business development. For example, an eligible investment would include:

- Equity or debt investments in –
  - Companies with substantial business operations in an underserved urban or rural area.
  - Real Estate (office, retail, housing, industrial) located in an underserved urban or rural area.
- Community Redevelopment Act (CRA) eligible investments –
  - Assets comprised significantly of loans made to borrowers with annual income less than 80% of the adjusted median income for the Metropolitan Statistical Area (MSA).
  - Assets comprised significantly of loans made in low to moderate income census tracts which are defined as those census tracts where the median income is less than 80% of the MSA in which the census tract resides.
- Examples of potential investments include but are not limited to:
  - An equity or debt investment in a retail chain that needs expansion capital to grow in an inner city area to capture untapped purchasing power and growth opportunities.
  - An equity or debt investment in a manufacturing operation that needs capital to build a facility in a low income, rural Enterprise Zone to access middle skilled workers.
  - An equity or debt investment in a distribution company that takes advantage of lower cost, underutilized inner city real estate to reduce costs and locate closer to customers and transportation networks.
  - An equity or debt investment in companies to finance back office operations located in areas with an underemployed, available labor pool.
  - An equity investment in a private equity fund that targets debt and equity investments in companies/real estate in underserved areas.

- An equity or debt investment in a mixed use urban development real estate project.
- An investment in CRA eligible single family or multi-family mortgage pools.
- An investment in commercial mortgages that are CRA eligible.
- An investment in Small Business Administration Loans that are CRA eligible.
- New investments in the marketplace that have not yet been identified

Asset Class Glossary: Shareowner Activities  
Policy: Economically Targeted Investment Program  
February 17, 2009

**California Emerging Market Investments**

California Emerging Market Investments shall focus on investment opportunities in traditionally underserved markets located in California. By way of example, underserved markets would include urban and rural areas undergoing or in need of revitalization where there are assets (e.g. an available labor pool, underutilized infrastructure) conducive to business development.

**Economically Targeted Investment**

An investment which has collateral intent to assist in the improvement of both national and regional economies, and the economic well being of the State of California, its localities and residents. Economic stimulation includes job creation, development, and savings; business creation; increases or improvement in the stock of affordable housing; and improvement of the infrastructure.

**Enterprise Zone**

A designated geographical area in which businesses enjoy favorable tax credits, financing, and/or other incentives.